

JAY C. ZIMINSKY

1 **DELMARVA POWER & LIGHT COMPANY**
2 **REBUTTAL TESTIMONY OF JAY C. ZIMINSKY**
3 **BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION**
4 **CONCERNING AN INCREASE IN ELECTRIC BASE RATES**
5 **PSC DOCKET NOS. 09-414/09-276T**

6
7 **1. Q: Please state your name and position.**

8 A: My name is Jay C. Ziminsky. I am Manager, Revenue Requirements in the
9 Regulatory Affairs Department, Pepco Holdings Inc. (PHI). I am testifying on
10 behalf of Delmarva Power & Light Company (DPL, Delmarva, or the Company).

11 **2. Q: Did you previously submit supplemental testimony in this case?**

12 A: Yes.

13 **3. Q: What is the purpose of your Rebuttal Testimony in this proceeding?**

14 A: The purpose of my testimony is to rebut arguments presented in the Direct
15 Testimony of Staff Witness Ralph Smith and Division of Public Advocate (DPA)
16 Witness Andrea Crane in regard to the ratemaking proposal for deferred pension
17 accounting that I described in my direct supplemental testimony filed on January
18 13, 2010 as part of this rate case filing. This proposal is to defer the difference
19 between 2009 pension expense incurred by the Company's Delaware Electric
20 Distribution operations and the pension income benefit that its customers have
21 been receiving in their base rates as set in Order No. 6903 in Docket No. 05-304.

22 In opposing the proposal, Staff Witness Smith and DPA Witness Crane
23 make the following claims, all of which I respond to below:
24

- 1 • Management has the ability to control pension expense through its plan
- 2 design and funding decisions
- 3 • Maryland Commission's decision on the Company's similar deferred
- 4 pension expense proposal in that jurisdiction
- 5 • The proposal represents retroactive ratemaking
- 6 • The proposal represents single issue ratemaking

7 In his rebuttal testimony, Company Witness Jenkins rebuts Staff Witness
8 Smith's position that the proposed regulatory asset treatment for pension costs
9 provides a disincentive for making just and reasonable reforms to the Company's
10 pension plans.

11 I will also respond to their argument that the Company's prepaid pension
12 asset should not be included in rate base. In addition, I will provide a revision to
13 the proposed ratemaking treatment detailed in my direct supplemental testimony
14 to reflect changes in regard to the proposed amortization period of the proposed
15 regulatory asset for deferred pension costs.

16 4. Q: What revision are you recommending in regard to your proposed
17 ratemaking treatment of these 2009 pension-related amounts?

18 A: I recommend that the amortization period related to the difference between
19 2009 pension expense incurred by the Company's Delaware Electric Distribution
20 operations and the pension income benefit that its customers have been receiving
21 in their base rates (as noted in Schedule JCZ R-1), be five years with rate base
22 treatment (as shown in Schedule JCZ R-2) as opposed to my original position of

1 three years with rate base treatment. The change in amortization period will
2 provide a more gradual recovery of these costs.

3 **5. Q: Please address Staff Witness Smith's claim that pension expense is somewhat**
4 **under the Company's control via plan design and management's funding**
5 **decisions.**

6 **A:** There are some pension expense-related items for which the Company has
7 control, such as plan design and funding decisions; however, pension expense is
8 far more determined by factors, such as asset performance and discount rate,
9 which are outside the control of the Company. In addition, the pension plan
10 benefit is part of the Company's overall compensation plan for its employees.
11 Changes to the pension plan must be taken in context of that overall compensation
12 plan. Company Witness Jenkins describes the Company's pension plan design and
13 overall compensation plan in his Rebuttal Testimony.

14 The significance of factors outside of companies' control in terms of
15 pension performance was recently discussed in the Pension & Investments 4th
16 Annual Liability Driven Investing Conference by The Vanguard Group regarding
17 pensions and related performance. As seen on Schedule JCZ R-3, a chart from
18 that conference shows that only 20% of the volatility in pension expense is plan
19 design related (actuarial assumptions that differ from actual results) while 80% of
20 the volatility is related to the discount rate and investment returns (which are out
21 of the control of the company) and impact all plan sponsors and all pension plans.
22 Company Witness Kamerick notes several examples of these discount rate and
23 investment return impacts. For example, a mere 25 basis point change in the

1 discount rate changes PHI's pension liability by \$40 million. In addition, a 10%
2 change in the value of PHI's pension trust will affect its annual pension expense
3 by approximately \$10 million.

4 In addition, Staff Witness Smith ignores the large role played by legal and
5 regulatory requirements such as Employee Retirement Income Security Act
6 (ERISA) and Financial Accounting Standards Board (FASB) in determining
7 annual pension expense and funding.

8 **6. Q: Please address Staff Witness Smith's comments in regard to the Company's**
9 **recent rate case decision in Maryland as part of Case No. 9192.**

10 **A:** Staff Witness Smith is selective in his reliance on that decision. On Page 6
11 of his Direct Testimony, Staff Witness Smith cites the Maryland Commission's
12 rejection of the Company's proposed deferred pension accounting treatment for
13 the difference between 2009 expense and the benefit that customer received in
14 their base rates. However, he fails to mention the Maryland Commission's
15 favorable decision in that same Case on Company Witness VonSteuben's pension
16 expense ratemaking adjustment as described on Page 16 of his Direct Testimony.
17 Company Witness VonSteuben proposes continued adherence of the Commission
18 precedent of using the latest current year forecast of pension expense per the
19 actuarial forecast. In contrast, Staff Witness Smith proposes a two-year average
20 for pension expense. If Staff Witness Smith believes that this Commission should
21 follow the precedent of the Maryland Commission, he should not object to
22 Company Witness VonSteuben's use of the latest current year forecast of pension

1 expense as the basis for the amount of pension expense included in the
2 Company's cost of service.

3 If this Commission wishes to consider precedent of other jurisdictions on
4 this issue, it should also take note of the decision of the Public Service
5 Commission of South Carolina in Order No. 2009-81 in South Carolina Electric
6 & Gas Docket No. 2009-36-E. In that case, the South Carolina Commission
7 authorized the utility to defer the difference between its 2009 pension expense and
8 the amount that it was recovering in its current base rates.

9 7. Q: Please address Staff Witness Smith's claim that this proposed deferred
10 accounting represents retroactive ratemaking.

11 A: The Company cannot be faulted for failing to raise this issue in a timely
12 manner. The Company first raised this proposed pension deferral accounting
13 request on May 1, 2009 in Docket No. 09-182, "In the Matter of the Petition of
14 Delmarva Power & Light Company for Authorization to Defer Certain Charges to
15 the Company's Financial Statements Resulting from the Impact of Recent
16 Economic Developments on Pension Costs." The Company provided timely
17 responses to the discovery requests of the other parties in that proceeding;
18 however, the Commission ultimately decided to consolidate that proceeding into
19 this one.

20 8. Q: Please address Staff Witness Smith's claim that this proposed deferred
21 accounting represents single-issue ratemaking.

22 A: The ratemaking treatment sought by the Company is warranted in light of
23 the size of the expense and the extraordinary circumstances that gave rise to its

1 incurrence. The difference between the Company's Delaware Distribution pension
2 expense in 2009 and the amount that it credited its customers during the same year
3 is \$8.972 million as shown in Schedule JCZ R-1. By comparison, the Company's
4 per books earnings for the test period were only \$31.971 million as shown in
5 Company Witness VonSteuben's Rebuttal Testimony Schedule WMV R-1 – Page
6 1 and the difference in pension expense compared to the amount collected was
7 \$8.972 million as shown in my Schedule JCZ R-1.

8 On Page 15 of his Direct Testimony, Company Witness Kamerick details
9 the economic circumstances that were present when this large shift in pension
10 expense was created. These same economic circumstances were also noted by the
11 Public Service Commission of South Carolina in its Order No. 2009-81 in Docket
12 No. 2009-36-E. In that order, the Commission stated:

13 Clearly, the recent downturn in the economy is unprecedented. In general,
14 the Company has seen an annual pension income rather than an expense.
15 This income has reduced rates.
16

17 **9. Q: Do you agree with both Staff Witness Smith's and DPA Witness Crane's**
18 **position of eliminating the entire rate base return related to the Company's**
19 **prepaid pension asset as part of this proposed pension expense deferral?**

20 **A:** No, I do not. Both parties propose removing the entire return related to the
21 Company's prepaid pension asset included in its rate base in this proceeding.
22 While the Company has experienced a shift from pension income to pension
23 expense on its income statement, the Company's prepaid pension asset balance is
24 not reduced to zero as part of that shift as both Staff Witness Smith and DPA
25 Witness Crane's adjustment would seem to propose.

1 **10. Q: Can you summarize your rebuttal testimony?**

2 A: Pension expense is an item which is largely out of the control of the
3 Company. Customers have benefited from the Company's strong pension plan
4 performance in the past. The current ratemaking penalizes the Company's
5 shareholders in a scenario such as the recent economic downturn when pension
6 expense has a dramatic increase. This expense has a significant impact on the
7 Company's Delaware Electric Distribution cost of service expense level and
8 hinders the Company from its ability to earn its authorized rate of return when the
9 Company does not have an ability to recover these costs. The Commission should
10 allow the Company to defer the difference between 2009 pension expense and the
11 pension credit that customers are currently receiving in their base rates and
12 provide recovery of that difference over a five-year amortization period with the
13 unamortized balance receiving rate base treatment.

14 **11. Q: Does this conclude your rebuttal testimony?**

15 A: Yes.

Delmarva Power & Light Company
Delaware Electric Distribution

2009 Actual Pension Expense versus Expense in Current Rates Per Order No. 6903 (Docket No. 05-304)

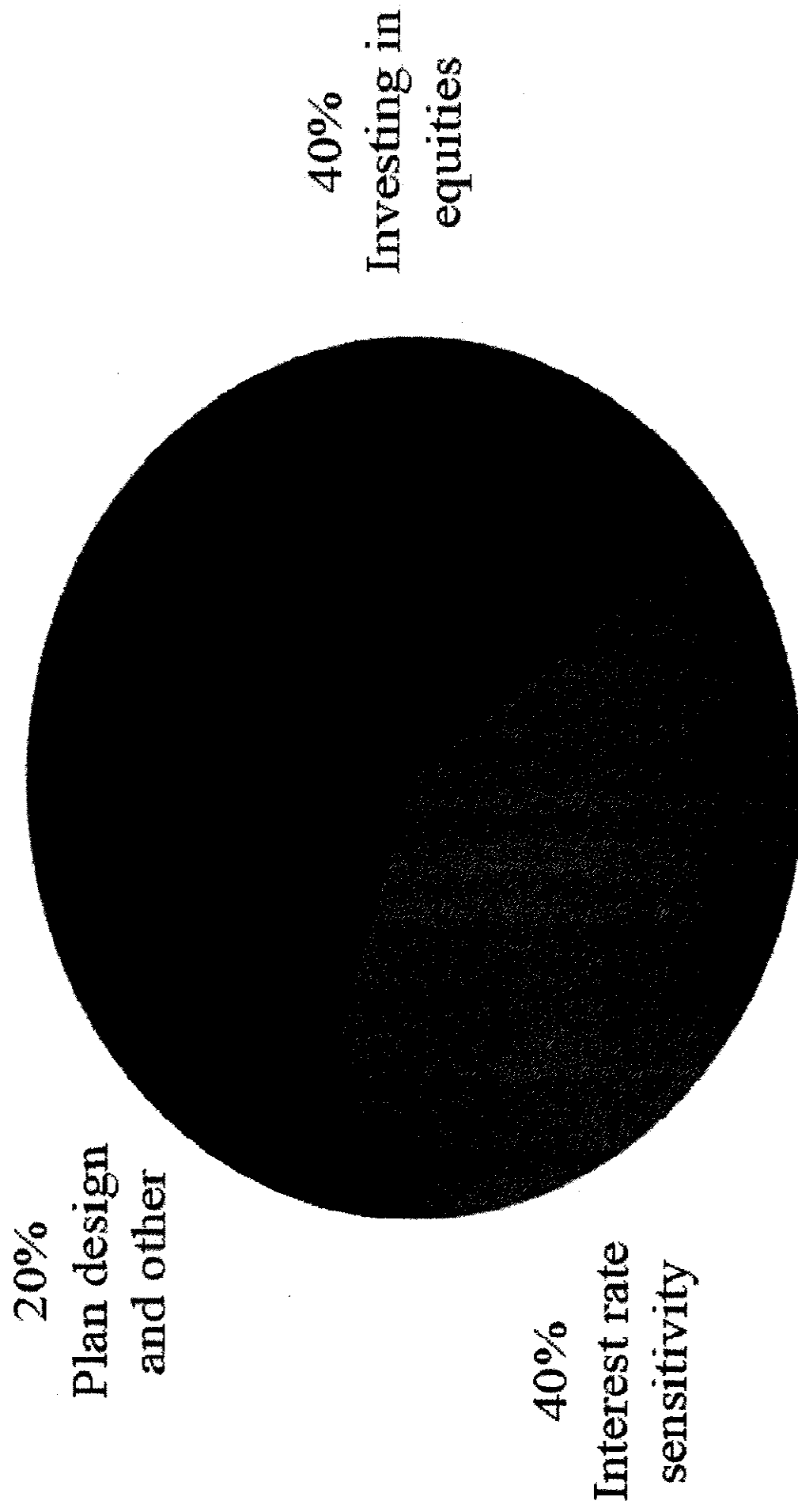
(1)	(2)	(3)	(4)
Line		ACTUAL	
No.	<u>Item</u>	12 Months Ending 12/31/09	Docket No. 05-304
1	<u>Delmarva Power</u>		
2	DPL Pension Costs per Actuary	\$13,437,638	(\$8,531,289)
3	DPL Electric Expense Ratio	<u>41.83%</u>	<u>41.47%</u>
4	DPL Electric Pension Expense	\$5,620,682	(\$3,537,832)
5			
6	<u>PHI Service Company</u>		
7	PHI Service Company Pension Costs per Actuary	\$53,874,811	\$7,577,751
8	PHI Service Company Pension Expense Allocator	<u>84.03%</u>	<u>90.34%</u>
9	PHI Service Company Pension Expense	\$45,269,765	\$6,845,675
10	DPL System Allocator	<u>26.30%</u>	<u>29.99%</u>
11	PHI Service Company Pension Expense Allocated to DPL	\$11,905,948	\$2,053,231
12	Electric Allocation Factor	<u>81.00%</u>	<u>79.00%</u>
13	PHI Service Company Pension Expense Allocated to DPL Electric	\$9,643,818	\$1,622,052
14			
15	Total Electric Pension Expense - Actuary (line 4 + line 13)	\$15,264,500	(\$1,915,780)
16			
17	DPL Delaware Distribution Expense Allocator	<u>52.43%</u>	<u>50.67%</u>
18			
19	Total Pension Expense - DPL Delaware Distribution	\$8,001,610	(\$970,783)
20			
21	Regulatory Asset	\$8,972,393	

Delmarva Power & Light Company
Delaware Electric Distribution
Amortization of 2009 Pension Regulatory Asset
\$000s

(1) Line No.	(2) <u>Item</u>	(3) <u>Amount</u>
1	<u>Earnings</u>	
2	2009 Delaware Distribution pension expense	\$8,001
3		
4	Docket No. 05-304 pension expense	<u>(\$971)</u>
5	Difference (line 2 + line 4)	\$8,972
6		
7	Amortization period	<u>5</u>
8	Annual amortization (line 5 / line 7)	\$1,794
9		
10	State Income Tax	(\$156)
11	Federal income tax	<u>(\$573)</u>
12		
13	Earnings Impact (line 8 + line 10 + line 11)	(\$1,065)
14		
15	<u>Rate Base</u>	
16	Unamortized Rate Base - Year 1 (line 5 + (line 5 - line 8))/2	\$8,075
17		
18	Deferred Tax Balance	<u>(\$3,283)</u>
19	Net Rate Base (line 16 + line 18)	\$4,792
20		
21	Net of Tax Rate of Return	<u>6.81%</u>
22		
23	Earnings Requirement (line 19 * line 21)	<u>(\$326)</u>
24		
25	Total Earnings Requirement (line 23 + line 13)	\$1,391
26		
27	Revenue Requirement Conversion Factor	<u>1.69246</u>
28		
29	Revenue Requirement (line 25 * line 27)	\$2,355

Pensions & Investments

The drivers of uncertainty and volatility (Risk)



Vanguard

Source: Vanguard Assumption: Traditional DR plan with 60%-70% invested in equities